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# Carl Menger on Labour

Motohiro Okada\*

**Abstract:**

This article examines Carl Menger's thought on labour from broad points of view.

Founded on his subjectivist perspective, Menger insisted on the predominance of goods of lower order over goods of higher order in value determination. He argued that wages, too, are determined according to this rule, like rent and capital interest. He denied the peculiarities of labour services and, therefore, of labour exchange. As a consequence, despite his reference to the direct impact of labour on the worker's welfare, Menger neglected it and restricted the object of his economic study on the worker's behaviour to labour supply in the market place. Thus, actual labour and the worker's motivation behind it were excluded from the object.

Menger refused to be labelled an adherent of laissez-faireism and approved modest state interventions in the protection of workers. He simultaneously preached class harmony by placing emphasis on the indispensability of capital accumulation and entrepreneurship to the benefit of workers.

For all his advocacy of subjectivism and respect for actuality, Menger lacked his consideration of the worker's identity as to her/his labour performance. This identity makes the nature of labour exchange differ from that of the exchange of non-human services. By the comparison of Menger, Jevons, and Walras, this article also explains that, despite their disparities, the triumvirate of the Marginalist Revolution shared the limitation, which was to characterise the neoclassical theory of labour.

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I gratefully dedicate the present article to Professor Shuichi Kojima of Konan University.

## I Introduction

The objective of this article is to elucidate the characteristics of Carl Menger's thought on labour by examining it from broad points of view, and further, by comparing the thinking of the trio of the Marginalist Revolution, Menger, William Stanley Jevons, and Léon Walras, to illuminate their commonality that provided a pivotal foundation for the neoclassical theory of labour, as well as their differences.

Carl Menger (1840–1921) has maintained a solid reputation as being one of the triumvirate of the Marginalist Revolution and as the founder of the Austrian School. A large number of studies, therefore, have been undertaken on his economics. However, very few of them have elaborated on his views of labour issues.<sup>(1)</sup> This may, to a considerable extent, be ascribed to the relative paucity of Menger's own comments on the issues in his writings. Nevertheless, lack of a full enquiry into his discussions on such an important subject as labour could be a serious impediment to the progress of Menger studies. Indeed, Menger's references to labour exhibit some fundamental features of his economics.

Thus, this article deals with Menger's thought on labour from various angles. What characterises the thought most typically is the negation of the distinctiveness of labour services and the resulting identification of the nature of labour exchange with that of the exchange of non-human services. Hence, Menger argued that wages are determined on the same principles as rent and capital interest. Here, based on his subjectivist approach and criticism of classical notions, he emphasised the value causality running from products to productive services as a general rule. Furthermore, although Menger touched on the direct impact of labour on the worker's welfare, he neglected it. Consequently, he restricted the object of his

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(1) Ugo Pagano (1985, 81–84), Erich W. Streissler (1990b), and Yukihiro Ikeda (2010) are among the remarkable studies done on Menger's thought on labour.

economic study on the worker's behaviour to labour supply in the market place and excluded actual labour and the worker's motivation behind it from the object. Also, Menger denied the capital-labour and employer-worker conflict of interest by underlining the necessity for capital accumulation and entrepreneurship for the well-being of the working class.

Most importantly, Menger, for all his advocacy of subjectivism and respect for actuality, was lacking in his consideration of the worker's identity, especially as to her/his preference regarding the type and intensity of labour *qua* an inalienable possessor of labour ability, which makes labour exchange dissimilar from the exchange of non-human services. This article will further illustrate that Menger, Jevons, and Walras had the deficiency in common. This limitation was to take root in neoclassical economics, typified by the subsumption of labour exchange under its general market doctrine in the formative process of marginal productivity theory.

Section II outlines basic features of Menger's economic theory. Section III explains Menger's conceptions of labour characterised by his denial of the peculiarities of labour services and wage determination, and the minimisation of the labour process. Section IV treats Menger's opinions on labour policy. While approving modest state interventions in the protection of workers from the abuses by the rich, Menger championed the capitalist order and preached class harmony by stressing the role of capital accumulation and entrepreneurship and the dependence of worker interests on them. Section V compares the thought of Menger, Walras, and Jevons on labour, thereby explicating their commonality that evolved to mark the neoclassical theory of labour as well as their differences. Section VI concludes the article.

## II Menger's Economic Theory: Basic Features

Menger formed an economic theory accentuating the supremacy of consumer demand and the roundaboutness of production, which developed into a perspective characterising the Austrian School. However, his views differed from those of his successors in some important respects.

Menger defines goods (Güter) in the first edition of *Grundsätze der Volkswirtschaftslehre* (hereafter GV1) of 1871. He states:

We refer to those things which have the qualification to be put just in a causal connection with the satisfaction of human needs as useful things. In so far as we recognise this causal connection and, furthermore, we are in a position to have actual recourse to the things in question for the satisfaction of our needs, we refer to them as goods (Diejenigen Dinge, welche die Tauglichkeit haben, in Causal-Zusammenhang mit der Befriedung menschlicher Bedürfnisse geradezu zu werden, nennen wir Nützlichkeiten, wofern wir diesen Causal-Zusammenhang aber erkennen und es zugleich in unserer Macht haben, die in Rede stehenden Dinge zur Befriedung unserer Bedürfnisse thatsächlich heranzuziehen, nennen wir sie Güter). (Menger [1871] 1968, 1–2)

A similar definition is also provided in the second edition of *Grundsätze der Volkswirtschaftslehre* (hereafter GV2), published in 1923, after Menger's death (see Menger 1923, 10).

Menger adds that 'I believe ... that all goods can be classified into the two categories of material goods (including all forces of power as far as they are goods) and useful human actions (or inactions), the most important of which are labour performances' (Ich glaube ... dass die Gesamtheit der Güter sich in die beiden

Kategorien der Sachgüter (einschliesslich aller Naturkräfte, so weit sie Güter sind) und in nützliche menschliche Handlungen (beziehungsweise Unterlassungen), deren wichtigste die Arbeitsleistungen sind, einordnen lassen) (see Menger [1871] 1968, 7).

Also, Menger classifies goods into goods of first order and goods of higher order. This assortment may roughly correspond to the ordinary classification into final (consumption) goods and means of production. Menger further subdivides goods of higher order into ‘goods of second order’, ‘goods of third order’, ‘goods of fourth order’, and so forth, according to the stage remoteness of their use from the completion of final goods, under the implicit assumption of the likes of the linear structure of production (see Menger [1871] 1968, 7–11; 1923, 20–23).

While making numerous laudatory remarks on Menger’s theory, George J. Stigler argues that ‘One general weakness in Menger’s exposition which clouds his value theory is the failure ... to differentiate between durable goods of any order and their services’ (see Stigler [1941] 1968, 154). A main cause for such criticism may be that, unlike the common practice, Menger includes services themselves with goods. As an illustration, Menger states in GV2: ‘Not merely technical means of production, let alone material ones, but also generally all (material and immaterial) goods through which we (on the way of production and exchange) command goods of lower order—capital uses, labour performances, etc., too—are to be regarded as goods of higher order’ (Als Güter höherer Ordnung sind nicht etwa lediglich die technischen oder wohl gar nur die materiellen Produktionsmittel zu betrachten, sondern überhaupt alle (materiellen und immateriellen) Güter, durch welche wir (auf dem Wege von Produktion und Verkehr) über Güter niedrigerer Ordnung verfügen (auch Kapitalnutzungen, Arbeitsleistungen usf.)) (see Menger [1923] 23).

Meanwhile, he writes in GV2:

Of major importance for economic theory and particularly of fundamental significance for capital- and income doctrine is the distinction between sources of use and their time-limited use; for example, the distinction between house buildings, pieces of land, household goods, etc., on the one hand, and their time-limited use, on the other hand (Von großer Wichtigkeit für die Wirtschaftstheorie, insbesondere aber von grundlegender Bedeutung für die Kapitals- und Einkommenslehre ist die Unterscheidung der Nutzungsquelle und ihrer zeitlich begrenzten Nutzung, z. B. der Wohngebäude, Grundstücke, Hausgeräte usf. einerseits und der zeitlich begrenzten Nutzung derselben andererseits). (Menger [1923] 19)

Menger also remarks that ‘The value of a use good is equal to the total value of its uses’ (Der Wert eines Nutzungsgutes ist gleich dem Werte der Totalität seiner Nutzungen) (see Menger 1923, 159).<sup>(2)</sup> These passages demonstrate that Menger reached a clear perception of factor-service demarcation with regard to ‘material goods’.<sup>(3)</sup>

As quoted above, Menger includes ‘the most important useful human actions’, that is, labour performances (Arbeitsleistungen) among goods. He also notes in GV2 that ‘it is a matter of rule that in civilised nations only a man’s performances which are provided voluntarily or upon an agreement, and not the man himself, can become means of the satisfaction of needs of other people and, therefore, goods’ (Regelmäßig können in zivilisierten Staaten nur freiwillig, respektive auf Grund eines Übereinkommens dargebotene Leistungen eines Menschen und nicht dieser

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(2) Menger terms what are equivalent to durable goods ‘Nutzungsgüter’, in distinction to ‘Verbrauchsgüter’, which are equivalent to consumable goods (see Menger 1923, 19).

(3) It is hard to find specific references to the factor-service relation in GV1. The above judgement by Stigler might be made chiefly on the basis of GV1.

selbst Mittel für die Befriedigung der Bedürfnisse anderer Personen und somit Güter werden) (see Menger 1923, 12). Moreover, in the manuscript of Menger's lectures to Crown Prince Rudolf of Austria in January, 1876, which was put on record by the prince (hereafter LJ76), it is written that 'One interprets basic assets to be the lasting foundation of any income; in this case, labour power of a man will be regarded as basic assets; in the popular sense, contrariwise, one interprets basic assets to be only those transferable objects of assets which bring about lasting income independent of their owner's labour' (Unter Vermögensstamm versteht man die dauernde Grundlage eines jeden Einkommens; in diesem Falle wird auch die Arbeitskraft eines Menschen als Vermögensstamm zu betrachten sein; im populären Sinne dagegen versteht man unter Vermögensstamm nur jene übertragbaren Vermögensobjekte, welche ein von der Arbeit des Besitzers unabhängiges dauerndes Einkommen liefern) (see E. W. Streissler and M. Streissler 1994, 62). These words suggest that, although not as explicitly as Walras, Menger also distinguished between labour ability as a factor and its service, which correspond to labour power (Arbeitskraft) and labour (Arbeit) in Karl Marx's phraseology, and understood the inalienability of labour ability from its possessor (see Walras 1988, 264–265; Okada 2011, 48–49).

In *Untersuchungen über die Methode der Socialwissenschaften, und der Politischen Oekonomie insbesondere* (hereafter UMS) of 1883, Menger singles out 'needs (Bedürfnisse)' and 'goods that are directly offered to men by nature (means of production as well as of consumption concerned) (die den Menschen unmittelbar von der Natur dargebotenen Güter (sowohl die bezüglich Genuss- als Produktionsmittel))', and 'the desire for the most complete satisfaction of needs possible (for the most complete filling of the requirement for goods possible) (das Streben nach möglichst vollständiger Befriedigung der Bedürfnisse (nach möglichst vollständiger Deckung des Güterbedarfes))' as the most original factors of human



economy. Menger argues that these factors are ultimately independent of human arbitrariness (Willkür) and given by each situation. He justifies the study to explain the laws for the evolution of more complicated economic phenomena from the simple factors by referring to it as ‘the exact direction of theoretical research (die exacte Richtung der theoretischen Forschung)’, in contrast to ‘the realistic-empirical direction (die realistisch-empirische Richtung)’ taken by German historical economists (see Menger [1883] 1969, 45, 49–59).

The theoretical unfolding in *Grundsätze der Volkswirtschaftslehre* may be regarded as Menger’s own attempts at the exact direction. One of its most striking hallmarks is the underlying concept that ‘needs’ and ‘the desire for the most complete satisfaction of needs possible’ of the consumer have supremacy, and goods and their production are subject to them. As a ramification for this, the status of goods of higher order is held to depend on that of goods of lower order. In GV2, Menger clearly states:

[I]n the quality of goods, goods (without distinction of order) are generally conditioned by the existence of needs whose satisfaction they serve, or, **with respect to the quality of goods, goods of higher order are conditioned by that of goods of lower order whose production they serve.** The quality of goods of lower order is the cause, not the effect, of that of goods of higher order (means of production that serve their production) ([D]ie Güter überhaupt (ohne Unterschied ihrer Ordnung) in ihrer Güterqualität durch das Vorhandensein der Bedürfnisse bedingt sind, zu deren Befriedigung sie dienen, beziehungsweise **daß die Güter höherer Ordnung in Rücksicht auf ihre Güterqualität durch jene der Güter niederer Ordnung bedingt sind, zu deren Hervorbringung sie dienen.** Die Güterqualität der Güter niederer

Ordnung ist die Ursache, nicht die Wirkung derjenigen der Güter höherer Ordnung (der Produktionsmittel, die zu ihrer Hervorbringung dienen). (Emphasis in original; Menger 1923, 27)

A similar argument is also set forth in GV1 (see Menger [1871] 1968, 17–21). Hence, if a good of first order loses its quality of being good due to the loss of needs for it, all relevant goods of higher order also lose their quality of goods in Menger's view.

The same holds for the relationship between the value of goods of first order and that of goods of higher order. Menger defines: 'Value ... is the significance that concrete goods or quantities of goods acquire for us because we are conscious that we are dependent on the command of them in the satisfaction of our needs' ([E]s ist ... der Werth die Bedeutung, welche concrete Güter oder Güterquantitäten für uns dadurch erlangen, dass wir in der Befriedung unserer Bedürfnisse von der Verfügung über dieselben abhängig zu sein uns bewusst sind) (see Menger [1871] 1968, 78; see also Menger 1923, 103). He also argues: 'Value is ... of subjective nature not only on its essence but also on its measure. Goods always have "value" for certain economic agents and have certain value only for such agents' (Der Werth ist ... nicht nur seinem Wesen, sondern auch seinem Masse nach subjectiver Natur. Die Güter haben „Werth“ stets für bestimmte wirtschaftende Subjekte, aber auch für solche einen bestimmten Werth) (see Menger [1871] 1968, 119). Thus, Menger takes a thoroughly subjectivist position on value and rejects the labour and production cost theories of value (see, for example, Menger [1871] 1968, 120–121; 1923, 144–146).

Such a passage as that below in GV1 suggests that Menger, de facto, holds that the value of goods of first order or consumption goods equals their marginal utility:

**In every specific case ... only those of satisfactions of needs secured by the whole quantity of the goods set available to an economic person which have the least significance to this person are dependent on the command of a certain partial quantity thereof. Accordingly, the value of a partial quantity of the available goods set for that person is equal to the significance that the least important of the satisfactions of needs secured by the whole quantity and brought about with a same partial quantity have for him (Es sind ... in jedem concreten Falle von der Verfügung über eine bestimmte Theilquantität der einer wirtschaftenden Person verfügbaren Gütermenge nur jene der durch die Gesamtquantität noch gesicherten Bedürfnissbefriedigungen abhängig, welche für diese Person die geringste Bedeutung unter diesen letztern haben und der Werth einer Theilquantität der verfügbaren Gütermenge ist für jene Person demnach gleich der Bedeutung, welche die am wenigsten wichtige der durch die Gesamtquantität noch gesicherten und mit einer gleichen Theilquantität herbeizuführenden Bedürfnissbefriedigungen für sie haben).** (Emphasis in original; Menger [1871] 1968, 98–99) <sup>(4)</sup>

Furthermore, in GV1 Menger effectively brings forth what are called Gossen's first and second laws, that is, the principle of diminishing marginal utility and that of equimarginal utility (see Menger [1871] 1968, 92–93, 98). Thus, as has been generally accepted, Menger may be ranked among the earliest proponents of

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(4) Menger also makes a similar explanation in GV2 (see Menger 1923, 127).

marginal utility theory, alongside Hermann Heinrich Gossen, Jevons, and Walras.

What, then, about the value of goods of higher order or means of production?

The following statements express Menger's basic stand on the issue:

[A]ll value phenomena, no matter which goods they may appear on, are of the same nature and have the same origin, and the value in terms of its measure is also regulated according to the same principles in all cases. Now that ... the price of goods is a result of their value for economic men, and that the magnitude of the former, under all circumstances, finds its governing principle in that of the latter, it is also clear that rent, capital interest, and wages, too, are regulated according to the same and general principles ([A]lle Wertherscheinungen, hinsichtlich welcher Güter sie auch immer zu Tage treten, derselben Natur sind, denselben Ursprung haben und der Werth auch rücksichtlich seines Masses in allen Fällen nach den gleichen Principien sich regelt. Da nun ... der Preis der Güter eine Folge ihres Werthes für die wirtschaftenden Menschen ist und auch die Grösse des erstern unter allen Umständen in jener des letztern ihr massgebendes Princip findet, so ist zugleich klar, dass auch die Bodenrente, der Capitalzins und der Arbeitslohn sich nach den gleichen allgemeinen Grundsätzen regeln). (Menger [1871] 1968, 143)

Land uses, labour performances, and capital uses are either goods of first order or goods of higher order according to their respective purpose, and therefore they follow the general laws of value (Die Bodennutzungen, die Arbeitsleistungen und die Kapitalnutzungen sind je nach ihrer Bestimmung entweder Güter erster oder solche höherer Ordnung und sie fallen demnach unter die allgemeinen Wertgesetze). (Menger 1923, 161)

In this way, Menger believes that the value of all goods, regardless of their order, is governed by the same and general principles, and therefore this is true of rent, wages, and capital interest as a result of the value of 'land uses, labour performances, and capital uses' *qua* goods of higher order or productive services.

Regarding the principles of value Menger argues: 'The value that goods of lower order have for us ... cannot be conditioned by the value of the goods of higher order that are used for their production. It is rather evident that the value of goods of higher order, contrariwise, is always and unexceptionally conditioned by the expected value of those goods of lower order whose production they serve' (Der Werth, welchen die Güter niederer Ordnung für uns haben, kann ... nicht durch den Werth der Güter höherer Ordnung bedingt sein, welche bei der Production derselben verwendet werden, vielmehr ist es klar, dass umgekehrt der Werth der Güter höherer Ordnung stets und ausnahmslos durch den voraussichtlichen Werth jener Güter niederer Ordnung bedingt ist, zu deren Hervorbringung sie dienen) (see Menger [1871] 1968, 124; see also Menger 1923, 144–147). Thus underlining the predominance of goods of lower order over goods of higher order as to the determination of the value and denying the opposite, Menger insists on the role of the value of goods of first order—and, therefore, consumer needs—as the ultimate cause of the value of goods in general, together with the irrelevance of the production cost of goods to their value. Indeed, Menger states in GV2: 'We transfer the significance that the satisfaction of our needs has for us firstly to (economic) goods of first order, and thereby the value comes to make its appearance firstly on them in an immediate manner. Just in the case where the goods of first order concerned are not available to us in a sufficient quantity for our requirement for them, we progressively transfer the value from the goods of first order to the

corresponding goods of second, third, and higher order. **Hence, the value of goods of higher order is conditioned by the expected value of goods of lower order whose production they serve**’ (Wir übertragen jene Bedeutung, welche die Befriedung unserer Bedürfnisse für uns hat, zunächst auf die (ökonomischen) Güter erster Ordnung und es gelangt demnach der Güterwert in unmittelbarer Weise zunächst bei diesen zur Erscheinung; erst dort, wo die bezüglichen Güter erster Ordnung uns in einer für den Bedarf ausreichenden Quantität nicht verfügbar sind, übertragen wir denselben fortschreitend von den Gütern erster Ordnung auf die entsprechenden Güter zweiter, dritter und höherer Ordnung. **Der Wert der Güter höherer Ordnung ist somit bedingt durch den voraussichtlichen Wert der Güter niederer Ordnung, zu deren Hervorbringung sie dienen**) (emphasis in original; see Menger 1923, 144).

It is to be noted here that Menger adds the adjective ‘expected (voraussichtlich)’. Indeed, he remarks that ‘This expected value of goods of lower order is ... often different from the value that similar goods have for us at present, and therefore the goods of higher order by means of which we command goods of lower order only with consideration for a future period find ... the measure of their value not in the latter at all, but in the former’ (Dieser voraussichtliche Werth der Güter niederer Ordnung ist ... nicht selten von jenem, welchen ähnliche Güter in der Gegenwart für uns haben, sehr verschieden, und finden desshalb die Güter höherer Ordnung, durch welche wir über Güter niederer Ordnung doch nur mit Rücksicht auf einen künftigen Zeitraum verfügen ..., das Mass ihres Werthes keineswegs in dem letztern, sondern in dem erstern) (see Menger [1871] 1968, 124–125). Menger emphasises that the transformation of goods of higher order to goods of lower order takes time and entails uncertainty (see Menger [1871] 1968, 21–26; 1923, 28–31). Time here is irrevocable and historical.<sup>(5)</sup> Menger’s insistence on the dependence of goods of

higher order on those of lower order and the unrelatedness of production costs with respect to value may be derived from his own subjectivism with this perception of the time factor in the production process. <sup>(6)</sup>

Such an introduction of actuality into his theory differentiates Menger from many other neoclassical economists—including his Austrian successors like Eugen von Böhm-Bawerk—who took a narrowly static approach presupposing the reversibility of economic actions. <sup>(7)</sup> As a result, Menger did not develop a systematic theory of price determination. In this regard Menger contrasts markedly with Walras, who focused on the determination of prices in general equilibrium based on highly static assumptions. While, like Walras, Menger has a clear notion of the so-called perfect competitive market, Menger's exposition of market exchange starts from an illustration of isolated exchange (*isolierter Tausch*), where the rate of exchange cannot be uniquely determined, and then moves on to that of other types of exchange with more competitive conditions (see Menger [1871] 1968, 153–212; [1883] 1969, 56; 1923, 167–216; Walras 1987a, 221–223). <sup>(8)</sup> Here, Menger supposes that the principle underlying the isolated exchange applies also to the other types of exchange, and, unlike Walras, he does not formulate a principle appropriate for competitive markets (see Alter 1990, 165, 177). This may be partly because

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(5) A. M. Endres (1984, 900) remarks that 'Historical time reigns supreme in the *Grundsätze*'.

(6) Jevons express a view analogous to Menger when he criticises the labour theory of value in the following manner: '[L]abour once spent has no influence on the future value of any article: it is gone and lost for ever. In commerce, by-gones are for ever by-gones; and we are always starting clear at each moment, judging the values of things with a view to future utility. Industry is essentially prospective, not retrospective; and seldom does the result of any undertaking exactly coincide with the first intentions of its promoters' (emphasis in original; see Jevons 1879, 178). In fact, unlike Menger, Jevons admits the impact of production cost on the value of product (see Jevons 1879, 178–179, 205–209).

(7) For overall comparisons between Menger and the typical neoclassical economists on theoretical assumptions, see, for example, Max Alter (1982, 211).

Menger views the development from isolated or monopolistic exchanges to competitive exchanges not so much as a logical step but as a historical evolution of economic culture (see, for example, Menger [1871] 1968, 179–180, 201–203; 1923, 213–216). At the beginning of Chapter 5 of GV1, indeed, Menger argues:

Prices or, in other words, the quantities of goods that appear in exchange, even if they come to our senses remarkably and therefore form the usual object of scientific observation, are by no means the essential of the economic phenomenon of exchange. This essential lies rather in the better provision for the satisfaction of needs of both exchanging parties brought about by the exchange. The economic men make efforts to improve their economic situation as far as they possibly can. For this purpose they practice their economic activity in general, and for this purpose they also exchange goods whenever thereby the purpose can be achieved. Yet, here, prices are merely accidental phenomena, symptoms of economic balance between the men's economy (Die Preise, oder mit andern

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(8) Menger recognises that in the isolated exchange 'human arbitrariness ... has certain room for play, as, within certain limits, various quantities of goods can be exchanged without the relevant exchange operations therefore losing their economic character' (die menscheliche Willkür ... einen gewissen Spielraum hat, indem innerhalb gewisser Grenzen verschiedene Güterquantitäten ausgetauscht werden können, ohne dass darum die bezüglichlichen Tauschoperationen ihren ökonomischen Charakter einbüßen würden) (see Menger [1871] 1968, 179). Even here, however, Menger minimises this arbitrariness by arguing that 'on the supposition of economically equally capable individuals and otherwise equal circumstances, we may well posit, as a general rule, that both parties' efforts to gain the greatest possible economic advantage will offset each other, and hence the prices will remain equally far from the two extremes, within which they can be established' (werden wir, unter der Annahme ökonomisch gleich tüchtiger Individuen und gleicher sonstiger Verhältnisse, als allgemeine Regel aufstellen dürfen, dass das Bestreben beider Contrahenten, einen möglichst grossen ökonomischen Vortheil zu erzielen, sich gegenseitig paralysiren wird, und demnach auch die Preise von den beiden Extremen, innerhalb welcher sie sich bilden können, gleich weit entfernt bleiben werden) (see Menger [1871] 1968, 178; see also Menger 1923, 187–188).



Worten, die im Tausche zur Erscheinung gelangenden Güterquantitäten, so sehr sie sich auch unseren Sinnen aufdrängen und deshalb den gewöhnlichsten Gegenstand der wissenschaftlichen Beobachtung bilden, sind doch nichts weniger als das Wesentliche der ökonomischen Erscheinung des Tausches. Dieses liegt vielmehr in der durch den Tausch herbeigeführten besseren Vorsorge für die Befriedigung der Bedürfnisse der beiden Tauschenden. Die wirtschaftenden Menschen haben das Bestreben, ihre ökonomische Lage nach Möglichkeit zu verbessern. Zu diesem Zwecke setzen sie ihre wirtschaftliche Thätigkeit überhaupt in Bewegung und zu diesem Zwecke tauschen sie auch die Güter aus, wo immer hierdurch derselbe erreicht werden kann. Die Preise sind hiebei aber lediglich accidentielle Erscheinungen, Symptome des ökonomischen Ausgleiches zwischen den menschlichen Wirtschaften). (Menger [1871] 1968, 174)

A similar comment is also made in GV2 (see Menger 1923, 182). While stating that ‘the price of goods is a result of their value for economic men, and that the magnitude of the former, under all circumstances, finds its governing principle in that of the latter’, Menger suggests that the prices of goods or their exchange rates generally do not correspond to the values that each trader gives to them subjectively (see Menger [1871] 1968, 172–175; 1923, 182–186). Here too, Menger differs from Walras, who saw the value as equivalent to the ‘rareté (scarcity)’ and demonstrated the proportionality between the price and the rareté in subjective equilibrium (see Walras 1988, 48, 116, 141–144; Jaffé 1976, 521–522). As Marx Alter (1990, 6) puts it, in Menger’s view, ‘values are of the essence of economic life while price [*sic*] are only the surface phenomena of economic activity in the market’. Indeed, Menger argues: ‘A right theory of prices cannot ... have the task to explain the alleged but, in truth, nowhere existing “equality of value” between two quantities of goods; a task

where the subjective character of value and the nature of exchange are completely misunderstood. Instead, it must be directed to show how the economic men are led to part with goods in their effort towards the fullest possible satisfaction of their needs and, more specifically, certain quantities of them each other' (Eine richtige Theorie der Preise kann ... nicht die Aufgabe haben, jene angebliche, in Wahrheit aber nirgends bestehende „Werthgleichheit“ zwischen zwei Güterquantitäten zu erklären, eine Aufgabe, bei welcher der subjective Charakter des Werthes und die Natur des Tausches völlig verkannt werden, sondern muss darauf gerichtet sein, zu zeigen, wie die wirtschaftenden Menschen bei ihrem auf die möglichst vollständige Befriedigung ihrer Bedürfnisse gerichteten Streben dazu geführt werden, Güter, und zwar bestimmte Quantitäten derselben gegeneinander hinzugeben) (see Menger [1871] 1968, 175). Thus, to borrow F. A. Hayek's words, 'what he [Menger] was aiming at was rather to provide tools for what we now call process analysis than for a theory of static equilibrium' (see Hayek 1973, 10).<sup>(9)</sup>

As a consequence, Menger did not work up a systematic theory for the determination of wages and other prices of productive services. Yet, Menger's statements about the value of goods of higher order like those below suggest that he had a conception having an affinity with marginal productivity theory:

[T]he value of a given quantity of a particular good of higher order is ... not equal to the significance of the satisfactions of needs that depends on the whole product whose production it serves, but is just equal to the significance of the satisfactions provided for by the partial quantity of the product that would be lost, provided that we cannot command the given quantity of the good of higher order ([D]er Werth einer Quantität eines einzelnen Gutes höherer Ordnung ist ... nicht gleich der Bedeutung der Bedürfnissebefriedigungen, welche von dem ganzen

Producte abhängen, zu dessen Hervorbringungen es dient, sondern lediglich der Bedeutung jener Bedürfnissbefriedigungen, für welche durch die Theilquantität des Productes vorgesorgt ist, um welche sich das letztere mindern würde, wofern wir über die in Rede stehende Quantität des Gutes höherer Ordnung nicht zu verfügen vermöchten). (Menger [1871] 1968, 141)

A similar view is also set forth in GV2 (see Menger 1923, 155–158; see also Menger [1871] 1968, 138–142).<sup>(9)</sup> Furthermore, Menger takes cognisance of the substitutability between goods of higher order (see Menger [1871] 1968, 139–141; 1923, 42–43). Stigler ([1941] 1968, 149–150) and Rothschild (1973, 212–213)

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(9) ‘Menger kept too close to the real world for either the verbal or the symbolic formulation of the theory; and in the real world he saw no sharply defined points of equilibrium, but rather bounded indeterminacies not only in isolated bilateral barter but also in competitive market trading. To quote Streissler, “His [Menger’s] economics in its substantive content was disequilibrium economics;” it was also in a broad sense institutional economics’ (Jaffé 1976, 520; see also Streissler 1973, 172–173). E. W. Streissler also remarks: ‘[I]t is quite clear in reading Menger that Menger was the first great economist who pictured, as a further important dimension of his thought, the world as one of *imperfect competition* ... his whole chapter on price theory introduces *monopoly theory* as the *general theory*, argues that monopoly is much more prevalent than is commonly realized’ (emphasis in original; see Streissler 1973, 169). Sandra J. Peart (1998) argues that Menger and Jevons, in contrast to Walras, can be ‘homogenised’ in their stress on market imperfection and their lack of interest in the theory of price determination.

While there is no denying such ‘heretic’ features in Menger’s economics, it is important to note the discrepancies between them and ‘the exact direction of theoretical research’ advocated by him in UMS as well. Menger effectively admitted in UMS that price theory on the exact direction should be developed by assuming Walrasian perfect competition, which can scarcely be achieved, as Menger recognised it (see Menger [1883] 1969, 56–58). However, Menger did not apply this principle to his price theory not only in VG1 before UMS but also in VG2 thereafter. It may safely be said that rather Menger infiltrated a ‘realistic-empirical direction’— according to him, this is incompatible with the exact direction—into his main theoretical work in his own way.

(10) ‘Menger eschews any formulation of the theory of production whatsoever. Yet, curiously, he is the only one of the three [Menger, Jevons, and Walras] who presents a general marginal productivity formulation for the valuation of all factors’ (Streissler 1990a, 168). K. W. Rothschild (1973) also rates Menger high as a trailblazer of marginal productivity theory.

praise this as one of Menger's pioneering contributions that Jevons and Walras are devoid of.

To recapitulate, Menger advocated the homogeneity of the determination rule for wages, rent, and capital interest, although he did not systematically bring forward this argument. Furthermore, with stress on the value causality running from goods of lower order to goods of higher order, which is an idea akin to marginal productivity theory, and the cognition of inter-productive service substitutability, Menger's thinking harbingered the neoclassical doctrine of distribution.

### **III Menger's conceptions of Labour**

It was observed in the preceding section that Menger recognises no essential difference between labour and other productive services at least in their economic nature.<sup>(11)</sup> Indeed, Menger states that 'Labour performances are only one element of the ... [production process] and, also, are not economic goods in any higher degree than remaining elements of production, especially land- and capital uses' (Die Arbeitsleistungen sind lediglich ein Element des ... [Produktionsprocesses] und auch nicht in höherem Masse ökonomische Güter, als übrigen Elemente der Production und insbesondere die Boden- und Capitalnutzungen) (see Menger [1871] 1968, 147).

Hence, Menger recognises no peculiarity of the rule governing wages: 'In fact, the price of concrete labour performances ... are, like that of all the other goods,

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(11) '[T]he absence of the classicists' "holy trinity" of land, labor, and capital. Productive factors are simply goods of higher order; the services of labor, land, and capital goods are on the same footing .... In Menger's treatment, in fact, specific productive agents are not grouped into arbitrary categories which lack economic significance. As a result, his theory of imputation, now to be considered, gains a symmetry difficult to secure so long as the classical trichotomy ruled economic discussion' (Stigler [1941] 1968, 151). Rothschild (1973, 211) presents a similar view.

governed by their value. This latter, then, is governed ... by the magnitude of the significance of those satisfactions of needs which we would have to forgo if we were unable to command the labour performances in question' (In Wahrheit regelt sich ... auch der Preis concreter Arbeitsleistungen ... gleich jenem aller anderen Güter nach ihrem Werthe. Dieser letztere aber regelt sich ... nach der Grösse der Bedeutung jener Bedürfnissbefriedigungen, welche wir entbehren müssten, wofern wir über die betreffenden Arbeitsleistungen nicht zu verfügen vermöchten) (see Menger [1871] 1968, 151). Thus, Menger offers a rationalisation of the fact that 'many labour performances of the worker cannot even be exchanged for the bare means of subsistence, whereas, for other labour performances, ten-, or twenty-, or even one hundred times as many quantity of goods as are necessary for the subsistence of a man are to be easily acquired' (viele Arbeitsleistungen von dem Arbeiter nicht einmal gegen die notdürftigsten Subsistenzmittel ausgetauscht werden können, während für andere Arbeitsleistungen die zeh-, zwanzig-, und selbst hundertfache Quantität der zur Subsistenz eines Menschen erforderlichen Güter leicht zu erlangen ist) (see Menger 1923, 166).

In consequence, Menger negates the labour theory of value and exploitation:

Experience teaches us ... that numerous goods on which no labour was spent (for example, alluvial land, water power, etc.) show economic character everywhere when they are available in a quantity that does not meet our requirement, as well as, on the other hand, the circumstance that a thing is a product of labour, by itself, does not necessarily result even in its having quality of goods, much less economic character. Accordingly, the labour expended in a good ... cannot be the criterion of economic character of goods, and it is rather clear that the criterion is to be sought exclusively in the relationship between requirement for and available

### Carl Menger on Labour

quantity of goods (Die Erfahrung lehrt uns ... dass zahlreiche Güter, auf welche keine Arbeit verwandt wurde (z. B. angeschwemmtes Land, Wasserkräfte etc.) den ökonomischen Charakter überall dort aufweisen, wo sie in einer unsern Bedarf nicht erreichenden Quantität uns verfügbar sind, wie denn andererseits der Umstand, dass ein Ding ein Arbeitsproduct ist, an und für sich nicht einmal die Güterqualität, geschweige denn den ökonomischen Charakter desselben zur nothwendigen Folge hat. ... die auf ein Gut aufgewendete Arbeit kann demnach nicht das Kriterium des ökonomischen Charakters der Güter sein, es ist vielmehr klar, dass dasselbe ganz ausschliesslich in dem Verhältnisse zwischen Bedarf und verfügbarer Quantität derselben zu suchen ist). (Menger [1871] 1968, 61)

Labour performances are only an element of the ... [production] process and also are not economic goods in higher measure than the remaining elements of production, especially land- and capital uses. Accordingly, capital- and land owners also do not live on what they take away from workers, but on their capital- and land uses that are as valuable as labour performances for individual and society (Die Arbeitsleistungen sind lediglich ein Element des ... Processes und auch nicht in höherem Masse ökonomische Güter, also die übrigen Elemente der Production und insbesondere die Boden- und Capitalnutzungen. Die Capital- und Grundbesitzer leben demnach auch nicht von dem, was sie den Arbeitern entziehen, sondern von ihren Capital- und Bodennutzungen, welche für Individuum und Gesellschaft ebenso wohl Werth haben, als die Arbeitsleistungen). (Menger [1871] 1968, 147)

What, then, does Menger think about workers' motivations behind their labour supply? In GV1, he writes:

A special characteristic of labour performances that also affects the relevant value phenomena lies in the fact that some of them are connected with unpleasant feelings for the worker, and therefore they will not easily be effected if not in exchange for economic advantages that arise from their activity. Accordingly, this kind of works cannot easily attain the non-economic character for society. Meanwhile, the value that inactivity generally has for the worker, in fact, is heavily overestimated compared with the rule. The occupations of by far the greater majority of men grant them joy and are a true satisfaction of needs for them, and would also be practiced, albeit in smaller measure or in a modified way, if they were not forced to the exertion of their powers driven by necessity. The operations of his power are a need of every sound man, and if, nevertheless, only a small number of people work without expectation of economic advantages, the reason lies not so much in the unpleasantness of work in general as, rather, in the fact that opportunity for rewarding work is sufficiently available (Eine besondere Eigenthümlichkeit der Arbeitsleistungen, welche auch auf die bezüglichen Wertherscheinungen einwirkt, besteht darin, dass ein Theil derselben für den Arbeiter mit unangenehmen Empfindungen verbunden ist und demnach nicht leicht anders als gegen ökonomische Vortheile, welche demselben aus seiner Thätigkeit entstehen, wirksam wird. Arbeiten dieser Art können desshalb für die Gesellschaft nicht leicht den nicht ökonomischen Charakter erlangen. Indess wird der Werth, welchen die Unthätigkeit im Allgemeinen für den Arbeiter hat, der Regel nach denn doch stark überschätzt. Die Beschäftigungen der weitaus grössern Mehrzahl von Menschen gewähren ihnen Freude, sind für dieselben eine wahre Bedürfnissbefriedigung und würden, wenn auch in geringerem Masse, oder in modificirter Weise, auch dann ausgeübt werden, wenn die Menschen

durch die Noth zur Entfaltung ihrer Kräfte nicht gezwungen würden. Die Bethätigung seiner Kraft ist für jeden wohlorganisirten Menschen Bedürfniss, und wenn nichtsdestoweniger nur wenige Personen ohne Aussicht auf wirtschaftliche Vortheile arbeiten, so liegt der Grund hievon nicht so sehr in der Unannehmlichkeit der Arbeit im Grossen und Ganzen, als vielmehr darin, dass Gelegenheit genug zur lohnenden Arbeit vorhanden ist). (Menger [1871] 1968, 149)

Menger also makes a similar explanation in GV2 (see Menger 1923, 165).

In this manner, unlike Jevons, Menger marginalises the notion of labour as pain and, rather, holds that labour is generally accompanied by pleasure. Also, as can be seen from the last sentence of the above quotation, he advocates an opportunity cost theory of labour supply. Thus, Menger may be regarded as the precursor of the Austrian labour doctrine (see Spencer 2009, 75–79).

Furthermore, Menger's demarcation between 'work technically (technisch arbeiten)' and 'witschaften (have an economy)', stated in Chapter 4 of GV2, typifies his angle on labour. In Menger's view, the latter is none other than 'discretionary activities aimed at the final fulfilment of our requirement for goods (auf die endliche Deckung unseres Güterbedarfes hinzielenden dispositiven Tätigkeit)', and the former is just one of the objective means of the activities.<sup>(12)</sup> Menger remarks that it is both

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(12) Menger maintains that the failure to distinguish 'technical labour (technische Arbeit)' from 'economy in the subjective meaning (Wirtschaft im subjektiven Sinne)' in the past economics, especially in the British political economy since Adam Smith and David Ricardo, led to the wrong notion that technical labour is the sole source of wealth, the sole element of value formation, and the true standard of the value of all kinds of goods (see Menger 1923, 63).

In GV1, Menger also referred to 'technical labour performances (technische Arbeitsleistungen)', but he did not articulate the distinction between them and economy (see Menger [1871] 1968, 136–138).



possible to work technically without having an economy, like artists and scholars, and to have an economy without working technically, like entrepreneurs and housewives. Moreover, Menger adds:

[T]he wage-worker does not have an economy while he does technical works for another person's economy; he has an economy while he sells his labour performances for the fulfilment of his requirement for goods ([D]er Lohnarbeiter wirtschaftet nicht, indem er technische Arbeiten für eine fremde Wirtschaft verrichtet; er wirtschaftet, indem er seine Arbeitsleistungen um der Deckung seines Güterbedarfes willen veräußert). (Menger 1923, 63)

This passage not only supplements Menger's opportunity cost theory of labour supply, but also contains the following implication. That is, the object of Menger's economic study on the worker's behaviour is restricted to labour supply in the market 'for the fulfilment of his requirement for goods', or in pursuit of maximum wages, and actual labour and the worker's motivation behind it are excluded from the object. Hence, Pagano makes a good point when he says:

[T]he personality of Menger's individual is so disunited that he recalls very closely what psychiatrists define as a schizophrenic personality. On the one hand, he is well aware of his needs when these needs concern the objects that he consumes; and on the other hand, the same individual treats the allocation of himself in production as the allocation of any superior-order object. In addition, this individual is indifferent to the needs that can be satisfied or dissatisfied by different human activities of production. (Pagano 1985, 84)

Thus, Menger's perception of labour is not merely characterised by his insistence on the dependence of the value of labour as a productive service on that of the product, which is premised on the supremacy of consumption over production; it further underrates the significance of the labour process and industrial relations there. This problem will be dealt with again in Section V.

#### **IV Menger on Labour Policy and the Role of Capital Accumulation and Entrepreneurship**

In *Die Irrtümer des Historismus in der deutschen Nationalökonomie* (1884), Menger contends that he is never such 'an advocate of the Manchester Party (ein Anhänger der Manchesterpartei)', i.e., a dyed-in-the wool believer in *lasses-faire* as Gustav Schmoller dubbed him. Menger adds that: 'I would like to devote my small power to the investigation into the law by which the economic life of men is formed; meanwhile, nothing is farther from my direction than the service in the interest of capitalism' (Ich möchte meine geringe Kraft der Erforschung jener Gesetze widmen, nach welchen das wirtschaftliche Leben der Menschen sich gestaltet; nichts liegt meiner Richtung ferner, als der Dienst im Interesse des Capitalismus) (see Menger [1884] 1970, 92–93).

Indeed, in the manuscript of Menger's lectures to Crown Prince Rudolf in February, 1876, which was also noted by the prince (hereafter LF76), it is written that 'If a few's egoism and their greed presents an obstacle to the interest of many, the time has come when the state should defend the equal rights of all and must interfere resolutely with the activities of the individual and must put his egoism in his legal place *for the benefit of the all*' (Wenn der Egoismus einzelner und ihre Gewinnsucht den Interessen vieler ein Hindernis bietet, ist der Moment gekommen, in

dem der Staat die gleichen Rechte aller wahren soll, und *zum Wohle des Ganzen* kräftig in die Tätigkeiten des einzelnen eingreifen und dessen Egoismus in die gesetzlichen Schranken weisen muß) (emphasis in original; see E. W. Streissler and M. Streissler 1994, 124).<sup>(13)</sup> For instance, a minimal tax on the poor and a progressive tax on the rich are endorsed in LF76 (see E. W. Streissler and M. Streissler 1994, 196, 198). Also, in a transcript of Menger's lectures on public finance at the University of Vienna in 1888, it is suggested that a monopoly of tobacco is preferable to that of sugar since the former falls less on the poor than the latter (see Mizobata 1993, 64).

LF76 also contains the following passage:

Naturally, it is a major concern of the state that a very large part of its population and certainly one of the main *constituents* of the whole society, that is, workers, in addition to their fatally *miserable living conditions*, shall not undergo further new suffering solely by the arbitrariness of a few rich people only for their own

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(13) The following passage is also found in LF76: 'The egoistic interest of individuals, because of a momentary advantage, can often lead to the implementation of an act that certainly does not overstep the limits of *the free use* of property, but, nevertheless, can bring about a lasting damage to many, *and even* to the owner. In this case it is the duty of the state to prevent this misfortune by good tips or ordinances; it is, to be true, a strong intervention in economic efforts of the individual, which, however, is only qualified *when the interest of the whole threatened by the egoism of the individual requires it* and therefore the protective caution of the whole becomes necessary' (Das egoistische Interesse einzelner kann oft wegen eines momentanen Vorteils zur Ausführung einer Handlung führen, die zwar die Grenzen *der freien Benützung* des Eigentumes nicht überschreitet, aber dennoch für viele, *und selbst* für den Eigentümer, einen dauernden Schaden herbeiführen kann. In diesem Falle ist es die Sache des Staates, dieses Unheil durch gute Ratschläge oder durch Verordnungen zu verhindern; es ist zwar ein starker Eingriff in die wirtschaftlichen Bestrebungen des einzelnen, der aber nur dort bedingt ist, *wo das durch den Egoismus des einzelnen bedrohte Interesse der Gesamtheit es erfordert*, und daher die schützende Vorsicht der Gesamtheit zur Notwendigkeit wird) (emphasis in original; see E. W. Streissler and M. Streissler 1994, 130).

benefit (Es ist natürlich ein Hauptinteresse des Staates, daß ein so großer Teil seiner Bevölkerung und gerade einer der Hauptfaktoren im großen Ganzen, nämlich die Arbeiter, nur durch die Willkür einzelner Reicher zum bloßen Wohle dieser, bei ihrer ohnedies *kümmerlichen Lebensweise* nicht noch neue Leiden hinzugefügt bekommen). (Emphasis in original; see E. W. Streissler and M. Streissler 1994, 126).

Thus, it is argued in LF76 that the onus lies on the state to intervene in wealthy factory owners' exertions and prevent them from gaining additional profits if necessary (see E. W. Streissler and M. Streissler 1994, 128). It is also noted there that the state should do its best to raise the conditions of the working class and ease their misery when it is exposed to the public eye (see E. W. Streissler and M. Streissler 1994, 50).

Accordingly, in the words of Kiichiro Yagi (2004, 49), Menger could be 'an interventionist to the extent that he thinks it a duty of the state to do everything in its power to improve the status of the working class and alleviate their distress'. From what can be seen in LF76, however, Menger's proposals are rather equivocal and conservative. For instance, Menger emphasises the 'corruptive evil (*verderbliches Übel*)' of child labour because of its impediment to the physical and intellectual development of the workers. Yet, Menger does not specify the means to deter it (see E. W. Streissler and M. Streissler 1994, 128). Menger also espouses the governmental prohibition of more than fifteen-hour work day (see E. W. Streissler and M. Streissler 1994, 126, 128). However, as Ikeda (2010, 9) puts it, 'If one works for 15 hours, as is indicated here, he or she will be left with only nine hours in the day, which is almost equivalent to total sleeping hours plus a short time for breakfast, lunch and dinner. Indeed, this concept must be acceptable for almost all

capitalists, including those seeking to exploit their workers up to 15 hours a day’.

Moreover, ‘the iron law of wages (das eiserne Lohngestez)’ is recognised in LF76 as containing the major principle of every wage determination and concerning the most populous stratum of workers. As a consequence, it is maintained that unskilled civil servants’ wages should be set at the minimum subsistence level (see E. W. Streissler and M. Streissler 1994, 152, 154, 156).

In fact, it is also stated in LF76 : ‘The individual citizen knows best what is of use to him, and he develops the greatest industriousness when he works for his own interest. *Furthermore*, in a cultivated nation, we must regard the awareness of the contribution to the improvement of the general well-being by the own efforts as a remarkable incentive to work’ (Der einzelne Bürger weiß am besten, was ihm von Nutz ist, und wird, da er für sein eigenstes Interesse arbeitet, den größten Fleiß entwickeln. Als einen nennenswerten Antrieb zur Arbeit muß man *ferner* in einem kultivierten Staate das Bewußtsein der Mitwirkung zur Hebung des allgemeinen Wohlstandes durch die eigenen Bestrebungen betrachten); hence, state controls imposing stereotyped policies on citizens are viewed as a serious hindrance to the development of society as a whole by hampering the diversity of individual preferences and activities and the incentive to work (emphasis in original; see E. W. Streissler and M. Streissler 1994, 108, 110, 112, 114). In this fashion, self-interest is assumed to harmonise with public benefit as a rule.

Thus, it is insisted in LF76:

With a still uncultivated people, the head of the state can seek to lift the stark sluggish economy by his own intervention; yet, where trade and commerce flourish by industriousness and education, the state can immensely damage citizens’ interest by *excessive* interference, whereas it most definitely promotes

the interest of the national economy by admission of room for free play and of assistance only in the case when individuals' power is too weak (Bei einem noch unkultivierten Volke kann das Haupt des Staates durch eigenes Eingreifen die vollkommen darniederliegende Volkswirtschaft zu heben suchen; doch, wo durch Fleiß und Bildung das Gewerbe und der Handel blühen, kann der Staat durch *allzugroße* Einmischung in die Interessen der Bürger ungemein schaden, während er durch Zulassung eines freien Spielraumes und Hilfe nur in jenen Fällen, wo die Kraft der einzelnen zu schwach ist, am sichersten die volkswirtschaftlichen Interessen *fördert*). (Emphasis in original: E. W. Streissler and M. Streissler 1994, 108, 110)

Freedom and self-responsibility of citizens in their economic efforts are the foundations of the general development of a nation; therefore, the state must realise and defend these main principles. By the opposite, that is, by the paternalistic system, it debilitates and undermines its own progress and infringes the natural rights of its citizens (Freiheit und Selbstverantwortlichkeit der Bürger in ihren wirtschaftlichen Bestrebungen sind die Grundfesten der allgemeinen Entwicklung eines Staates; darum muß dieser diese Hauptprinzipien ermöglichen und schützen. Durch das Gegenteil, durch das Bevormundungssystem, schwächt und untergräbt er seinen eigenen Fortschritt und versündigt sich an den natürlichsten Rechten seiner Bürger). (E. W. Streissler and M. Streissler 1994, 114)

In LJ76, communism and socialism are criticised as systems spoiling people's freedom and self-responsibility (see E. W. Streissler and M. Streissler 1994, 48, 50).

Thus, as Streissler (1990b, 113–121) explains, it may be fair to say that Menger

took a minimalist position on state interventions in general and was ‘very modest’ as to the labour policy.

Here, Menger may be considered to remain at a level akin to that of classical economists. This is concretely shown in ‘Die Social-Theorien der Classischen National-Oekonomie und die Moderne Wirtschaftspolitik’ (hereafter SCM), published in 1891.<sup>(14)</sup> Menger wrote this article against the background of the centenary of Adam Smith’s death. Citing the cool response to this anniversary in the German speaking world, Menger underlined the decline of classical political economy on the soil. At its rear, Menger observed the atrophy of liberalism and the rise of the social politics school (die social-politischen Schule), which pervaded not only academe but also political areas in Germany and Austria (see Menger [1891] 1970, 219–223). Under these circumstances, Menger pointed out, classical political economy was regarded as ‘capitalistic, atomistic, abstract, and an enemy of the people (kapitalistisch, atomistisch, abstract, volksfeindlich)’ and thus as misleading and able to be rejected in German academe (see Menger [1891] 1970, 220).

Menger argues that this hostility resulted from the misconception by the social politics school that confused classical political economy with the Manchesterite doctrine. He states: ‘It is not true that the newer German social politics school stands in factual contrast to classical political economy’ (Es is nicht wahr, dass die neuere social-politische Schule Deutschlands in sachlichem Gegensatz zu der classischen National-Oekonomie stehet) (see Menger [1891] 1970, 222–223).

They say, Menger notes, that ‘in all cases of conflict of interests between the poor and the rich and between the strong and the weak, Adam Smith is unexceptionally on the side of the latter [the rich and the strong]’ (Adam Smith stellt

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(14) For the arguments in SCM, see also Ikeda (2010, 11–14).

sich in allen Fällen des Interessen-Conflictes zwischen den Armen und den Reichen, zwischen den Starken und Schwachen ausnahmslos auf die Seite der Letzteren [*sic*]). Menger continues that, in fact, such a passage is found nowhere in Smith's works and remarks that 'So highly A. Smith values the free initiative of the individual in economic matters, so energetically he defends state interventions in any cases where it is concerned with the legislation or legal application that forces the expulsion of poor and weak people in the interests of rich and powerful people' (So hoch A. Smith die freie Initiative des Individuums in wirtschaftlichen Dingen stellt, so energisch tritt er doch überall dort für staatliche Eingriffe ein, wo es sich um die Beseitigung der Armen und Schwachen zu Gunsten der Reichen und Mächtigen bedrückenden Gesetzgebung oder Gesetzanwendung handelt) (see Menger [1891] 1970, 223).

Menger argues that Smith objected to mercantile regulations on residence and the wages of his age because they were unfavourable to the poor and the weak. Meanwhile, Menger adds, Smith seldom opposed state intervention for the benefit of the poor and the weak; for example, Smith was even for legal determinations of wage levels in so far as they profited workers, and he approved of the law to compel masters to pay their workers not in kind but in money (see Menger [1891] 1970, 223–224). Menger also points out that in terms of the protection of the poor and the weak Smith's principal standpoint was partially more progressive than that of 'social politicians (Social-Politiker)' of Menger's age, so that socialists like Louis Blanc, Ferdinand Lassalle, and Marx constantly referred to the theory of Smith and his disciples (see Menger [1891] 1970, 224–225).

Furthermore, Menger stresses that such classical economists following Smith as Ricardo, Thomas Robert Malthus, and Jean Baptiste Say, too, ardently espoused policies to improve the status of workers (see Menger [1891] 1970, 224–229).



Hence, Menger concludes that: 'It is none other than a defilement of the historical truth if the disciples who carry on Smith's doctrine in his spirit are assessed as representatives of a cruel and exploitative capitalism, as is the case with A. Smith's own' (Es ist kein geringerer Frevel gegen die historische Wahrheit, wenn die die Lehren Smith's in seinem Geiste fortbildenden Schüler desselben als Vertreter eines grausamen, ausbeuterischen Kapitalismus hingestellt werden, als dies rücksichtlich A. Smith's selbst der Fall ist) (see Menger [1891] 1970, 229). Menger adds that Smith and other classical economists were never proponents of laissez-faireism and they also upheld state interventions in various economic issues as well as labour problems (see Menger [1891] 1970, 230–233).

Thus, Menger states: 'What actually distinguishes classical political economy from the modern social politics school in the worker problem is by no means the tendency. Both recognise the unfavourable economic situation of a large part of the working population, both ask for a change in the interests of workers, and neither of them turns down state aids in principle' (Was die classische National-Oekonomie von der Schule der modernen Social-Politiker in der Arbeiterfrage thatsächlich unterscheidet, ist keineswegs die Tendenz. Beide anerkennen die ungünstige ökonomische Lage eines grossen Theiles der Arbeiter-Bevölkerung, beide verlangen eine Aenderung zu Gunsten der Arbeiter, keine derselben weist die Staatshilfe principiell zurück) (see Menger [1891] 1970, 234). Menger explains that the difference between classical political economy and the social politics school lies in the fact that, in the former, improvements of the economic situation of workers were first expected by removing all public institutions that disadvantageously affected workers' earnings, and positive state interventions in the national economy were viewed as able to be recommended only when workers' self-help and their free confederation did not suffice to achieve improvements, whereas, in the latter, the

main emphasis was laid on positive state intervention after a large part of the legislation that had forced the expulsion of poor and weak people in the interests of the propertied classes had been removed (see Menger [1891] 1970, 234). Accordingly, Menger remarks, ‘The economic policy of classical political economy corresponded exactly to the most urgent need of the age’ (Die Wirtschaftspolitik der classischen National-Oekonomie entsprach genau dem nächsten und dringendsten Bedürfnisse der Zeit), and therefore Smith and his disciples deserve to be called social politicians for their age (see Menger [1891] 1970, 235).

Menger continues:

In respect of their worker-friendly tendency, the classical economists do not in the least fall behind the modern social politicians. In another respect, the standpoint of classical political economy seems to considerably excel that of our newer social politicians beyond doubt to me. I mean the right insight into the causes on which the benefit of the working classes depends. The fact that the situation of workers is dependent not only on positive legislative policies but at least equally on the progressive accumulation of capital and the enterprising spirit of those who have it at their disposal is too much misunderstood at present. The one-sided tendency against all that is called capital and enterprise seems to have made the newer social politics school blind to the recognition of this truth and the resulting practical consequences. It is true that the distribution of income between the capital and the labour *per se* is a problem of highest importance, and each policy by which a larger share of the result of production accrues to the labour without threatening the existence of the industry must be hailed as a delightful social progress. Yet, it also seems to me just as certain that a considerable rise in wages can result only from the progressive accumulation and productive use of

capital; rather, the employment of an increasing number of working population at wages that are rising or even keep rising can go only hand in hand with the improvement of productive businesses and capital accumulation. Those who, quite one-sidedly, aim at only distribution of product between entrepreneurs and workers that is as favourable to the working class as possible overlook the fact that the distribution expected from here for the working class, even if its importance as such is great, is narrowly limited and inferior to that which grows out of the increase in capital and its productive use by itself (Stehen die classischen Volkswirthe in Rücksicht auf ihre arbeiterfreundliche Tendenz den modernen Social-Politikern zum mindesten nicht nach, so scheint mir der Standpunkt der classischen National-Oekonomie in einer andern Rücksicht jenem unserer neueren Social-Politiker dagegen zweifellos bedeutend überlegen zu sein. Ich meine die richtige Einsicht in die Ursachen, von welchen das Wohl der arbeitenden Classen abhängt. Dass die Lage der Arbeiter, nicht nur von positiven Gesetzgebungs-Massregeln, sondern zum mindesten ebensowohl von der fortschreitenden Ansammlung des Kapitals und vom Unternehmungsgeiste derjenigen, welche darüber verfügen, abhängig ist, wird gegenwärtig nur allzu sehr verkannt. Die einseitige Tendenz gegen Alles, was Kapital und Unternehmung heisst, scheint die neueren social-politischen Schulen gegen die Anerkennung dieser Wahrheit und der aus ihr resultirenden praktischen Consequenzen blind gemacht zu haben. Es ist richtig, dass die Vertheilung des Einkommens zwischen dem Kapital und der Arbeit an sich ein Problem von höchster Wichtigkeit ist und jede Massregel, wodurch der Arbeit, ohne dass die Existenzfähigkeit der Industrie in Frage gestellt wird, ein grösserer Antheil an den Ergebnissen der Produktion zufällt, als ein erfreulicher gesellschaftlicher Fortschritt begrüsst werden muss. Ebenso sicher scheint mir aber auch zu sein, dass eine beträchtliche Steigerung

der Löhne nur die Folge der fortschreitenden Ansammlung und productiven Verwendung von Kapital zu sein vermag, ja die Beschäftigung einer sich vermehrenden Arbeiter-Bevölkerung zu steigenden oder selbst zu den bestehenden Löhnen nur Hand in Hand mit dem Aufschwunge der productiven Gewerbe und der Kapitals-Ansammlung gehen kann. Diejenigen, welche, einseitig genug, nur eine dem Arbeiterstande möglichst günstige Vertheilung des Productes zwischen Unternehmer und Arbeiter im Auge haben, übersehen, dass die für den Arbeiterstand hieraus zu erwartenden Vortheile, so gross ihre Wichtigkeit an sich ist, doch eng begrenzt sind und gegenüber jenen, welche denselben aus der Vermehrung des Kapitals und seiner productiven Verwandung von selbst erwachsen, an Bedeutung zurückstehen). (Menger [1891] 1970, 239–240)

In this fashion, Menger underscores the indispensability of capital accumulation and entrepreneurship for the well-being of the working class.

Thus, stating that ‘Adam Smith and his school always defend public interest, not class interest (Adam Smith und seine Schule treten stets für das Gemeinwohl, nicht für Classen-Interessen ein)’, Menger contrasts this perspective with the German social-politics school’s ‘doctrinism (Doctrinarismus)’ typified by ‘blind hostility to capital and enterprising spirit, and to each individual’s initiative and self-responsibility in economic matters (eine blinde Gegnerschaft gegen Kapital, Unternehmungsgeist und gegen jede individuelle Initiative und Selbstverantwortlichkeit in wirtschaftlichen Dingen)’ (see Menger [1891] 1970, 242, 245).<sup>(15)</sup>

It may safely be said that Menger’s view above can be derived from his theory. In GV1, he argues: ‘Adam Smith ... made the progressive division of labour the main point of the economic progress of mankind; indeed, it is in harmony with the

overwhelming significance that he attaches to the labour element in human economy. However, I believe that in his chapter on the division of labour, the distinguished scholar ... only shed light on a single cause of the progressive well-being of mankind, but other no less effective causes escaped his observation' (Adam Smith hat ... die fortschreitende Arbeitsteilung zum Angelpunkte des wirtschaftlichen Fortschrittes der Menschen gemacht, und zwar im Einklange mit der überwiegenden Bedeutung, welche er dem Arbeitselemente in der menschlichen Wirtschaft einräumt. Ich glaube indess, dass der ausgezeichnete Forscher ... in seinem Capital über die Arbeitsteilung nur eine einzelne Ursache des fortschreitenden Wohlstandes der Menschen an's Licht gezogen hat, andere nicht minder wirksame jedoch seiner Beobachtung entgangen sind) (see Menger [1871] 1968, 27).

Menger continues that: 'If a people ... , instead of limiting themselves to the

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(15) In UMS, on the other hand, Menger argued that Smith and his disciples lacked understanding of 'the social institutions that emerge unreflectingly and their significance for the national economy (die auf unreflectirtem Wege entstandenen gesellschaftlichen Institutionen und die Bedeutung der letzteren für die Volkswirtschaft)' and criticised their 'pragmatism (Pragmatismus)' assuming that 'the institutions of the national economy are unexceptionally the product of the common will of society as such, results of explicit agreement of members of society or of positive legislation' (die Institutionen der Volkswirtschaft seien durchweg das beabsichtige Product des Gemeinwillens der Gesellschaft als solcher, Ergebnisse der ausdrücklichen Uebereinkunft der Gesellschaftsglieder oder der positiven Gesetzgebung) (see Menger [1883] 1969, 200–201).

Menger also remarked in UMS that: 'It is the one-sided rationalistic liberalism, the frequently impetuous effort for the removal of what exists, not always sufficiently understood, and the just as impetuous impulse to create something new in the realm of state institutions— often enough without adequate expertise and experience— that characterises A. Smith's and his disciples' doctrines' (Es ist der einseitige rationalistische Liberalismus, das nicht selten übereilte Streben nach Beseitigung des Bestehenden, nicht immer genügend Verstandenen, der ebenso übereilte Drang, auf dem Gebiete staatlicher Einrichtungen Neues zu schaffen—oft genug ohne ausreichende Sachkenntnis und Erfahrung—, was die Lehren A. Smith's und seiner Schüler charakterisirt) (see Menger [1883] 1969, 207).

Thus, to borrow Hayekian terms, classical economists, in Menger's opinion, are misled into constructivist rationalism and neglect of spontaneous order.

occupational activity that is based on the collection of available goods of lower order (in the most primitive condition of mankind, mostly goods of first order and, perhaps, of second order), grasp goods of third, fourth, and higher order and progress to the mobilisation of goods for the satisfaction of their needs to increasingly higher degree, we, with appropriate division of labour in particular, will certainly be able to perceive that progress in well-being which Adam Smith was disposed to exclusively attribute to the latter condition' (Greift ... ein Volk, anstatt sich lediglich auf die occupatorische Thätigkeit, das ist auf das Aufsammeln der vorhandenen Güter niederer Ordnung, (in den rohesten Zuständen der Menschen zumeist Güter erster und etwa zweiter Ordnung,) zu beschränken, zu den Gütern dritter, vierter und höherer Ordnung und schreitet dasselbe in der Heranziehung von Gütern zur Befriedigung seiner Bedürfnisse zu immer höherer Ordnungen fort, so werden wir, zumal bei zwechmässiger Theilung der Arbeit, allerdings jenen Fortschritt in seinem Wohlstande wahrnehmen können, welchen Adam Smith ausschliesslich dem letztern Umstände zuzuschreiben geneigt war) (see Menger [1871] 1968, 27–28).

In this manner, Menger indicates that the development of the division of labour constitutes just one factor for the growth in economic welfare, and he stresses the improvement of roundabout production, that is, capital accumulation as another factor, now pointing out Smith's insufficient understanding of this issue.<sup>(16)</sup> Similar explanations are also made in GV2 (see Menger 1923, 94–101). Menger further states in GV1:

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(16) 'The longer the period that a production takes, certainly the higher, all other things being equal, its productivity and also the greater the value of capital use' (Je länger der Zeitraum ist, welchen eine Production in Anspruch nimmt, um so höher ist allredings under sonst gleichen Umständen die Productivität derselben, um so grösser aber auch der Werth der Capitalbenützung) (see Menger [1871] 1968, 136). For Menger's detailed discussions on the theory of capital, see Menger ([1883] 1970).

The process of the transformation of goods of higher order into those of lower order or into goods of first order, if it is otherwise economic, is further conditioned, under all circumstances, by the fact that an economic subject prepares for it and leads it in an economic sense, and he also performs ... economic calculations and provides or lets others provide the process with goods of higher order including technical labour performances. This so-called entrepreneurial activity, which, at the beginnings of culture and later, too, still in the small business, is normally developed by the same economic subject that intervenes in the production process by his technical labour performances, now frequently needs the full time of the economic subject in question with the progressive division of labour and enlargement of enterprises; hence, it is as necessary an element of production of goods as technical labour performances and has the character of a good of higher order and, since it is normally an economic good like the latter, value as well (Der Prozeß der Umgestaltung von Gütern höherer Ordnung in solche niederer Ordnung, beziehungsweise in Güter erster Ordnung, soll er anders ein ökonomischer sein, ist ferner unter allen Umständen dadurch bedingt, dass ein wirtschaftendes Subject denselben vorbereite und in ökonomischen Sinne leite, also die ökonomischen Berechnungen ... anstelle und die Güter höherer Ordnung, einschließlich der technischen Arbeitsleistungen, dem Prozesse tatsächlich zuführe oder zuführen lasse. Diese sogenannte Unternehmertätigkeit, welche in den Anfängen der Cultur und auch später noch beim Kleingewerbe der Regel nach von demselben wirtschaftenden Subjecte entwickelt wird, welches auch durch seine technischen Arbeitsleistungen in den Productionsprocess eingreift, bei fortschreitender Theilung der Arbeit und Vergrößerung der Unternehmungen jedoch nicht selten die volle Zeit des betreffenden wirtschaftenden Subjectes in Anspruch nimmt, ist deshalb ein eben

so nothwendiges Element der Gütererzeugung wie die technischen Arbeitsleistungen und hat den Charakter eines Gutes höherer Ordnung, und zwar, da dieselbe gleich den letzteren der Regel nach ein ökonomisches Gut ist, auch Werth). (Menger [1871] 1968, 136–137)

The same statement is also made in GV2 (see Menger 1923, 153–154).

Thus, Menger attributes the leading role in the production process to the entrepreneur—especially, in Menger’s view laying emphasis on the factor of uncertainty in ‘the transformation of goods of higher order into those of lower order’, the entrepreneur requires due ability of ‘economic calculations’ and decision making—and he observes that entrepreneurship grew to be a proper function independent of ‘technical labour’ with the development of the division of labour and size of firms—therefore, of capital accumulation.<sup>(17)</sup> While stating ‘The **entrepreneurial activity**, too, is to count definitely among the labour performances (Zu den Arbeitsleistungen ist entschieden auch die **Unternehmerthätigkeit** zu rechnen)’, Menger distinguishes between entrepreneurship and ‘technical labour’ by remarking that ‘The journal owner ... , more often than not, is also a contributor to his journal and the manufacturing entrepreneur also a worker; yet, both are entrepreneurs not owing to their technical contribution in the production process, but owing to the fact that they provide goods of higher order for a certain purpose of production through their economic

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(17) Menger mentions that entrepreneurial activity includes: (a) the information on the economic situation (die Information über die wirtschaftliche Sachlage), (b) the economic calculation (das wirtschaftliche Calcül), (c) the act of will by which goods of higher order are devoted to a certain production (der Willenact, durch welchen Güter höherer Ordnung einer bestimmten Production gewidmet werden), and (d) the supervision of the best possible economic implementation of the production plan (die Ueberwachung der möglichst ökonomischen Durchführung des Produktionsplanes) (see Menger [1871] 1968, 137).



calculation and eventually through an act of will' (Der Journaleigenthümer ist ... nicht selten zugleich Mitarbeiter seines Journales, der Gewerbeunternehmer zugleich Arbeiter, Unternehmer sind beide jedoch nicht durch ihre technische Mitwirkung beim Productionsprocesse, sondern dadurch, dass sie Güter höherer Ordnung durch ihr wirtschaftliches Calcül und schliesslich durch einen Willensact einem bestimmten Productionszwecke zuführen) (emphasis in original; Menger [1871] 1968, 137, 149).

In sum, Menger sees capital accumulation and entrepreneurship, along with the division of labour, as essentials for increments in general welfare, thus denying the conflict of interest between capital and labour and between the employer and the employee. Accordingly, for all his allegation that 'nothing is farther from my direction than the service in the interest of capitalism', Menger proves to be a staunch defender of the capitalist order.

## **V Walras, Jevons, and Menger: Foundation for Neoclassical Theory of Labour**

Having extensively treated Menger's thought on labour, let us now compare it with the thought of Walras and Jevons, who are the other two of the triumvirate of the Marginalist Revolution. This attempt will elucidate not only their differences but also their commonality that provided a key foundation for the neoclassical theory of labour.

Walras incorporates his theory of labour exchange into his general equilibrium system in *Éléments d'économie politique pure* (hereafter EEPP).<sup>(18)</sup> A feature there is that he clearly distinguishes between personal faculties (*facultés personnelles*) and labour (*travail*) as their service (see Walras 1988, 264–265). This perception is comparable with Marx's labour power–labour distinction, and here Walras is more

articulate than Menger and Jevons.

In Part IV of EEPP, Walras adds markets for ‘productive services (services producteurs)’ from land, personal faculties, and capital goods to those for consumption goods explicated in the previous part and presents simultaneous equations to satisfy the equilibrium of all service and product markets. In this model, Walras assumes that personal faculties can be classified just like land and capital goods. Without giving an account of this, he quantifies each kind of labour and embodies its quantity in production functions with fixed input coefficients in EEPP. He also explains that the price of each of the personal faculties can be estimated by discounting on the price of the corresponding labour (see Walras 1988, 301–305, 352–353).

Walras states that the amount of labour can be measured in terms of labour time *per capita* (see Walras 1988, 301). This implies that each time-unit use of a personal faculty provides the same service. Hence, variability in the type and intensity of labour is precluded.

Furthermore, as Pagano (1985, 100–101) points out, of labour retained or purchased for their own consumption and that sold to others, it is solely the former that Walras presumes will immediately affect individuals’ welfare. This can be seen from the system of equations of equi-marginal utility (‘rareté’ in Walras’s terminology) –price ratio for all products and services that Walras presents as being required to reach each individual’s maximum satisfaction. Here, Walras includes the amount of labour retained or purchased for each individual’s own consumption in the argument of her/his utility function, but not that sold to others (see Walras 1988, 302–303).

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(18) For details on Walras’s thought on labour, see Motohiro Okada (2011, 48–52).

Accordingly, the worker's welfare and, therefore, her/his labour supply are assumed in Walras's theory to be affected by wages and labour for personal consumption or leisure, not by the substance of her/his labour in employment. Thus, despite Walras's perspicuous distinction between personal faculty and labour, the worker's preference as to the type and intensity of her/his labour is naturally left out of Walras's consideration (see Pagano 1985, 111–115).

Unlike Walras, Menger makes little reference to leisure as an opportunity cost of work. Instead, as mentioned in Section III, Menger recognises the effect of unpleasantness of work on labour supply in some occupations. Yet, Menger denies its generality by thinking that work, rather, gives pleasure and satisfaction to most people.

In contrast, Jevons's theory of labour is based on the notion of work as pain.<sup>(19)</sup> In the first edition of *The Theory of Political Economy* (hereafter TPE) of 1871, he defines: 'Labour is the painful exertion which we undergo to ward off pains of greater amount, or to procure pleasures which leave a balance in our favour' (see Jevons 1871, 162, 164). Jevons notes that labour can be attended by pleasure or positive utility.<sup>(20)</sup> However, he thinks that this case is limited, and labour is generally and practically assumed to be an activity involving pain or disutility (see Jevons 1871, 166). Consequently, Jevons argues that 'we must . . . measure labour by the amount of pain which attaches to it' (see Jevons 1871, 164).

In this manner, Jevons's subjectivist viewing of economics as 'a Calculus of Pleasure and Pain' even penetrates his quantitative notion of labour (see Jevons 1871, vii). In the chapter on labour (Chapter V) in TPE, Jevons presents a modelling

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(19) For details on Jevons's thought on labour, see Okada (2012).

(20) Jevons assumes that the worker experiences 'a small excess of pleasure' during the comparatively early stages of continuous labour. Additionally, Jevons observes that work itself is interesting and exciting for professionals (see Jevons 1871, 168–169, 176–177).

account of the concept of the ‘balance between need and labour’, or the worker’s utility maximisation. Here, Jevons offers an explanation to the effect that a man works up to the point where the marginal pain accompanying his labour becomes equal to the utility that he gains from the marginal product. Jevons assumes that the marginal pain of labour first decreases, but thereafter increases persistently with the duration of labour time, whereas the marginal utility—or the ‘final degree of utility’ in Jevons’s terminology—of the product decreases monotonically (see Jevons 1871, 165–174; 1879, 184–192).

The gist of the above model, indeed, could be conceived to be equivalent to what John Maynard Keynes called the second classical postulate of employment. However, Jevons makes no reference to the demand for labour or the employer. The equations of labour that he presents in Chapter V of TPE are restricted to those regarding the worker’s subjective equilibrium (see Jevons 1871, 179–183; 1879, 198–205, 209–219). Accordingly, the worker assumed here is fundamentally self-employed. This is not accidental. Jevons suggests that one can scarcely possess the ability to cardinally measure one’s own feelings, and much less, those of others (see Jevons 1871, 19–21; 1879, 13–15). Jevons also perceives that because of the variability in labour intensity, labour time is not an adequate measure of labour (see Jevons 1871, 165; 1879, 184–185; Black 1977, 253). Hence, labour time cannot be an appropriate trading unit in the labour market either; for each time-unit of labour, as its requisite, must be assumed to provide the same service. As a result, what remains as a candidate for the trading unit in accordance with Jevons’s thinking is the pain accompanying labour. However, while a trading unit must be such that both the seller and the buyer can perceive it, Jevons’s observations indicate that even the worker can hardly gauge her/his own pain and that such measurement completely exceeds the employer’s capability. From these discussions, it can be concluded that

there is no appropriate trading unit of a labour service as a *sine qua non* for the proper functioning of the labour market. This peculiarity of labour exchange is not found in the exchange of land and capital goods services. The trading unit of the latter can be well defined on the basis of the physical attributes of the corresponding land or capital goods, because of the fact that each (piece of) land or capital good with the same physical attributes provides exactly the same service.

Thus, Jevons's arguments could lead to the negation of the proper functioning of the labour market and, therefore, of the market determination of wages and other work conditions. They could also afford a ground for the intervention of class strife and other socio-political factors in labour exchange. This is a consequence of Jevons's close adherence to his subjectivist approach and the resulting focus on the direct impact of labour on the worker's welfare (see Pagano 1985, 77–81; Spencer 71–75). Menger and Walras, who are also subjectivists, are lacking in this feature.

However, in the preface to the second edition of TPE (1879), Jevons argues that wages are determined on the same principles as rents and yields on capital. Here, Jevons denies the value causality from labour to product as supposed by mainstream classical economists and justifies the reverse, that is, from product to labour, whose likeness he sees as implied in the Ricardian theory of rent. Furthermore, Jevons maintains that the causal relationship flowing from the value of outputs to that of inputs generally holds true, whether the latter are services from labour ability, or land, or capital goods. Thus, as Menger had already done definitely in GV1, Jevons was also ready to break away from the classical doctrine of distribution characterised by the application of different rules to the determination of wages, rent, and profit, and to shape a neoclassical one by formulating a uniform theory of their determination on the principle of the value causality from products to productive services (see Jevons 1879, I–Ivi).

Moreover, in the preface to the second edition of TPE and *Political Economy* (1878), Jevons indicates that, like rents and yields on capital and prices of goods in general, wages are determined in the market through ‘the same laws of supply and demand’ (see Jevons 1879 li; 1878, 57). As a consequence, while approving union activities for a reduced working day on the grounds that workers are not in a position to choose their own labour time individually, Jevons objects to union interferences, especially strikes, for a pay rise in *The State in Relation to Labour* of 1882 (see Jevons [1882] 1910, 54–89, 93–112).

These views, sketchy as they were, were to ripen into marginal productivity theory, the formation of which got into full swing after Jevons’s death.

However, the chapter on labour (Chapter V) in the second edition of TPE presents few momentous changes in Jevons’s thought compared with the same chapter in the first edition. Hence, Jevons’s explanations in the former could also lead to the negation of the market determination not only of labour time but of wages (see Jevons 1879, 181–227). This is at odds with the drift of the preface. This contradiction in the second edition of TPE can be ascribed to the collision between the consequence of Jevons’s subjectivist approach to value (the preface) and that to labour (Chapter V). Jevons himself was hardly aware of it.

Jevons indeed attaches importance to the variability of labour intensity or pain. Yet, it may be fair to say that this conception is grounded on physiological knowledge of human exertions, rather than on an understanding of the worker’s identity and the constraints imposed upon it by the employer. Jevons emphasises the variability in the worker’s marginal pain with the duration of labour time, but he does not give due consideration to this variability at the same point of labour time or the bodily shift of the marginal pain schedule (see, for example, Jevons 1879, 184–189, 221–227). If the latter is left unconsidered, the entire service from given work

hours, despite hourly differences in pain, may be regarded as fixed. Consequently, the exchange of labour services may be interpreted on the same footing as that of land and other non-human services, as Jevons argues in the preface to the second edition of TPE.

Such antinomy as that in the second edition of TPE is not exposed to the light of day in Menger's and Walras's theories. This is not because they could escape it, but because their subjectivism, unlike Jevons's, did not thoroughly penetrate their thought on labour. It was already seen in Section III that Menger restricted the object of his economic study on the worker's behavior to her/his labour supply in the market aimed at maximum wages, that is, maximum enjoyment of consumption, and he excluded actual work in production and the worker's motivation behind it from the object.

In the preface to GV1, Menger remarked that: 'We want to take exception to the opinion of those who deny the regularity of economic phenomena with the hint on the freedom of will, for hereby economics as exact science is generally negated' (*Verwahren möchten wir uns nur gegen die Meinung Jener, welche die Gesetzmässigkeit der volkswirtschaftlichen Erscheinungen mit dem Hinweise auf die Willensfreiheit des Menschen läugnen, weil hiedurch die Volkswirtschaftslehre als exacte Wissenschaft überhaupt negirt wird*) (see Menger [1871] 1968, VIII). Indeed, he argued that all principal economic phenomena are independent of human will (see Menger [1871] 1968, IX). As already noted in Section II, Menger also stated in UMS that the most original factors of economy including human needs are ultimately independent of human arbitrariness and given by each situation. He added that: '[T]he starting point and the goal of all economy (requirement and available quantity of goods, on the one hand, and the achievable completeness of filling of requirement for goods, on the other) are ultimately given to economic men and

strictly determined regarding their nature and measure' ([D]er Ausgangspunkt und der Zielpunkt aller Wirtschaft (Bedarf und verfügbare Güterquantität einerseits und die erreichbare Vollständigkeit der Deckung des Güterbedarfs andererseits) sind in letzter Linie den wirtschaftenden Menschen gegeben, rücksichtlich ihres Wesens und ihres Masses streng determinirt) (see Menger [1883] 1969, 45). Thus, Menger advocated the existence of rigorous economic causality that is independent of human will and viewed the essence of economic study as an exact science elucidating the laws of the causality.

Menger also underscored the independence of requirement and the quantity and quality of immediately available goods from will in GV2 (see Menger 1923, 34–36). However, he wrote:

The labour performances that individual economic subjects or all people command are also ultimately given each time. We can train and therefore modify labour powers that we command like other production elements. Yet, for the time being and immediately they are qualitatively and quantitatively determined by the economic situation of the time like material goods.

Only in one relationship we can observe an arbitrary moment regarding the mass of immediately available goods. The essence proper to a good lies not in its qualities as such but in its aptness to serve certain purposes of use, and hence objectively homogeneous things can appear to us as various kind of goods according to various services that we give them: for example, fruits appear as food, exhibits, and seeds; sticks as props, weapons, and tools. In consequence, **things** that are immediately available to us are certainly determined by the situation of the time in a (physically) strict way, but ... **goods** that are immediately available to us assume a partly arbitrary character—especially, this



also holds good for labour performances available to us; they appear to us, in a sense, as **disjunctively determined sizes** as well.

(Auch die Arbeitsleistungen, über welche die einzelnen wirtschaftenden Subjekte, beziehungsweise ganze Völker verfügen, sind in letzter Linie jeweilige gegeben. Wir vermögen die Arbeitskräfte, über welche wir verfügen, gleich anderen Produktionselementen auszubilden und somit zu modifizieren; zunächst und unmittelbar sind dieselben jedoch, gleich den materiellen Gütern, durch die jeweilige ökonomische Sachlage qualitativ und quantitativ determiniert.

Nur in einer Beziehung vermögen wir auch rücksichtlich der uns unmittelbar verfügbaren Gütermenge ein arbiträres Moment zu beobachten. Das eigentümliche Wesen eines Gutes liegt nicht in seinen Eigenschaften an sich, sondern in seiner Eignung, bestimmten Gebrauchszwecken zu dienen, und objektiv gleichartige Dinge vermögen uns demnach, je nach der verschiedenen Bestimmung, die wir denselben geben, als Güter sehr verschiedener Art zu erscheinen, z. B. Früchte als Nahrungsmittel, als Schaustücke, als Samen; ein Stab als Stütze, als Waffe, als Werkzeug usf. Die uns unmittelbar verfügbaren **Dinge** sind demnach durch die jeweilige Sachlage allerdings (physisch) streng determiniert, die uns unmittelbar verfügbaren **Güter** weisen dagegen—und es gilt dies insbesondere auch von den uns verfügbaren Arbeitsleistungen— ... einen zum Teile arbiträren Charakter auf; auch sie stellen sich uns im gewissen Sinne als **disjunktivdeterminierte Größen** dar.) (Emphasis in original; Menger 1923, 36)

In this way, Menger came to recognise a ‘partly arbitrary’ aspect of requirement called ‘disjunctive determination (disjunktive Determination)’ from the likelihood that ‘**various combination of goods** appear as requirement alike and we can

choose among them in concrete cases (**verschiedene Kombination von Gütern** sich uns in gleicher Weise als Bedarf darstellen und wir im konkreten Falle zwischen denselben zu wählen vermögen)', and the resulting applicability of the same labour ability to a variety of uses as well (emphasis in original; see Menger 1923, 35).<sup>(21)</sup>

However, there is a vital difference between the use of labour ability and that of non-human factors like land and capital goods in the above respect. The service—more precisely, the range of services—from each of the latter factors is given, independently of human will and according to its physical attributes, no matter how it is used. Because of this unique factor–service correspondence, the versatility of non-human factors is compatible with general equilibrium theory assuming given preferences and resources, that is, no room for the play of free will and deriving from there the market determination of prices of all services and their actual volume of trade. Due to the inalienability of labour ability from its possessor, on the other hand, the versatility of labour ability entails the variability of the type and intensity of its service as such, contingent on the worker's preference and the employer's efforts at extracting the service to her/his advantage. Consequently, the substance of labour actually performed, whether it is accompanied by pain as Jevons underlines or by pleasure as does Menger, and the wage level are generally unable to be determined in the market, due to the inadequacy of labour time as a unit of labour and the impracticability of positing labour service itself as a trading unit, as Jevons's arguments suggest. Thus, the work conditions are contingent on industrial relations in the production process, and therefore the worker–employer power struggle, which will not remain individual but develop into labour–capital class strife, and other socio-political factors may inevitably enter into the prime determinants of them. This

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(21) For the transition from Menger's 'monistic determinism' in GV1 to his perception of 'disjunctive determination' in GV2, see Yagi (2010, 24–28).

is irreconcilable with Menger's standpoint negating the employer–worker and capital–labour conflict of interest.

For all his mention of 'disjunctive determination', along with his labour ability–labour demarcation and care given to actuality, as observed in Section II, Menger ignored considerations of the above distinctiveness of labour exchange rooted in the variability of labour that depends on the worker's identity and the constraints imposed upon it by the employer, that is, their 'free will'. This may be a necessary result of Menger's adherence to economics as an 'exact' science, whose legitimacy is seriously challenged by the distinctiveness.

Walras has a similar view to Menger's. Walras regards 'pure economics' dealing with the determination of exchange value as a natural science (see, for example, Walras [1860] 2001, 151–153; 1988, 50–51, 52–54; 1993, 487–488). In *L'économie politique et la justice*, he argues: 'Natural facts will be ... distinguished from moral facts in that the former will have their origin in the fatality of natural forces, and the latter in human free will' (Les faits naturels se distingueront ... des faits moraux en ce que les premiers auront leur origine dans la fatalité des forces naturelles, les seconds dans la volonté libre de l'homme) (see Walras [1860] 2001, 152). In Walras's notion, labour exchange is also subject to 'the fatality of natural forces'. Hence, he denies the role of class strife and other 'moral facts'—or 'those which result from human will being exercised on the will of other humans; in other words, the relations of people to people (ceux qui résultent de la volonté de l'homme s'exerçant à l'endroit de la volonté des autres hommes, autrement dit les rapports de personnes à personnes)'—as determining factors of work conditions (see Walras [1860] 2001, 185–186, 522; 1993, 487; 1996, 582–587). He is thus opposed to workers' industrial actions and insists that the state should rationally intervene to suppress strikes for the purpose of the better working of product and service markets

(see Walras [1898] 1992, 251–253; 1987b, 510).

In *The State in Relation to Labour*, Jevons also mentions that ‘[A] trade dispute, especially when it has reached the acute phase of a strike, has little or nothing to do with economics’ (see Jevons [1882] 1910, 159). This may imply that, in Jevons’s conception, labour exchange as an object of economic science is limited to the worker–employer interplay in the market place and the determination of work conditions through it, and the operation of class strife and other socio-political factors is excluded from that scope. Jevons’s dichotomy of ‘economic’ and ‘social’ matters here lends support to the fact that, while bringing forward discussions that could lead to the negation of the market determination of work conditions including wages, he did not follow up this enquiry and, instead, clung to his advocacy of the market determination of wages. For Jevons too, indeed, the ideal of economics was an ‘exact’ mathematical science (see, for example, Jevons 1871, vii–viii; 1879, xvii–xviii, xxii, 3–5).

Because of these affinities between Menger, Jevons, and Walras, their theories had a common limit despite their variances; namely, notwithstanding their focus on the economic agent’s motivation with their criticism of classical economists’ lack of the perspective, they were deficient in focusing attention on the worker’s identity as to her/his labour performance and the distinctiveness of labour exchange that this leads to. This limitation in the triumvirate of the Marginalist Revolution was passed down to their successors without being exposed to serious doubts, and it took root in the development of neoclassical economics. In the formative process of marginal productivity theory, neoclassical economists subsumed labour exchange under their general market doctrine, thus leaving the particular characteristics of the exchange out of account. Hence, it may well be said that, although the triumvirate’s contribution to marginal productivity theory was relatively minor, their thought

afforded a pivotal foundation for the neoclassical theory of labour. <sup>(22)</sup>

## VI Concluding Remarks

This article conducted enquiries into Menger's thought on labour from various angles.

Although Menger did not develop a systematic theory of the price determination of productive services, he regarded labour exchange as having the same nature as the exchange of non-human services, and hence he argued that wages are determined on the same principles as rent and capital interest. Here, he emphasised the value causality running from products to productive services as a general rule based on his subjectivist approach and criticism of classical notions.

On the other hand, Menger hated to be dubbed a 'Manchesterite' and supported certain state interventions in the protection of workers. Yet, the drift in his argument there was rather modest, and was almost at the same level as that of classical economists. Additionally, Menger accentuated the importance of self-help efforts and affirmed the labour–capital and labour–management harmony of interest by underscoring the indispensability of capital accumulation and entrepreneurship to the

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(22) In *Zur Kritik der Politischen Oekonomie* of 1887, Menger wrote: 'There will ... come the time when the very devoted efforts by cultivators of exact economics—Boehm, Walras, Wieser, Pierson, Marshall, Sidgwick, and Gossen, Jevons, and others—win honours and gain the attention that deserves very earnest enquiries aimed at the reform of pure theory' ([W]ird ... die Zeit kommen, wo die so hingebungsvollen Bestrebungen der Bearbeiter der exacten Nationalökonomie: eines Boehm, Walras, Wieser, Pierson, Marshall, Sidgwick, eines Gossen, Jevons und Anderer zu Ehren kommen und jene Beachtung finden werden, welche so ernsten, auf die Reform der reinen Theorie hinielenden Forschungen gebührt) (see Menger [1887] 1970, 131). This passage hints that 'exact economics' within the Mengarian meaning, de facto, corresponds to neoclassical economics, and that Menger entertained comradely feelings towards the pioneers of neoclassical economics from different nations.

worker's benefit, thus upholding the capitalist order.

Unlike Walras, Menger referred to the direct impact of labour on the worker's welfare and labour supply. However, Menger neglected it and did not closely investigate the problem. This contrasts with Jevons's standpoint, which viewed the substance of labour as pain and thereby evolved discussions that could lead to the negation of the market determination of work conditions including wages. Despite these differences, Menger, Jevons, and Walras alike lacked perception into the worker's identity as to her/his labour performance and the distinctiveness of labour exchange that it brings forth. This limitation was passed down to their successors and took root as a characteristic of neoclassical economics, in which labour exchange was subsumed under its general market theory based on the marginal and maximising principles.

Nikolai Bukharin ([1919] 1927) denounced the doctrine of the Austrian school as a bourgeois rentier ideology with an over-exaggeration of consumption and a belittlement of production. This criticism may hold for not only Böhm-Bawerk, whom Bukharin targeted in the main, but also Menger, who limited the object of his economic study on the worker's behaviour to labour supply in the market place aimed at maximum wages, namely, maximum enjoyment of consumption, and excepted actual labour and industrial relations in the production process from the object. However, while Bukharin's arguments were chiefly grounded on the censure of the Austrian subjectivist theory of value in contradistinction to the Marxian labour theory of value, this article focused on Menger's lack of consideration for the worker's identity, especially regarding her/his preference concerning the type and intensity of labour, despite Menger's advocacy of subjectivism and respect for actuality. The latter trait can also be found in Jevons, Walras, and other neoclassical economists. Thus, the perspective presented in this article may shed some light on

class bias in neoclassical economics by intrinsically elucidating its inconsistencies, and it may thereby offer a more compelling counterargument to its theoretical bases.

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